

# COST *and* MANAGEMENT

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J. N. Allan, R.I.A., Secretary-Manager and Editor

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# EDITORIAL

## What Should We Tell Employees?

It is a generally accepted fact that efficiency can be increased and costs reduced by improving management-employee relations. What contribution can accountants make to this end?

The accounting organization is responsible for assembling, classifying, recording and presenting the vital statistics of business and industry. By the act of presenting business statistics the accounting division all too often is finished with their job when the figures are neatly arrayed in conventional accounting form, using conventional accounting terminology. In most cases, top management understand and accept this form of presentation as the proper one. On the other hand, most run-of-the-mill operating employees would be utterly confused by even the neatest looking balance sheet or other accounting statement. Any of them who come in contact with these figures are likely to become suffused with the feeling of distrust which so frequently accompanies a lack of understanding. The stormy element among the labour unions is prone to play upon this distrust, and also to misrepresent the statistical information as long as it is possible to hoodwink employees.

Although in most cases the accounting division has no direct responsibility for industrial relations policies, it is well within the province of accounting activities to think about ways of presenting technical statements and other information in simplified form for employees, and to suggest that it be presented if no request for such information has been made by those responsible for industrial relations.

So, although there is no formal obligation for accountants to do anything about this situation, the men who put the information in symmetrical accounting array are the men who possess the know-how to break it down and re-design the contents for the man-in-the-shop. Possessing the know-how to do this job to our mind carries with it a moral obligation to see that it is done.

If management has been sold or can be sold on the idea of keeping employees informed about their company, two principal problems arise, with respect to how the job is to be done. The first is the problem of simplifying technical information and the general form of presentation; the second is the decision as to the medium or media through which the information will be given to employees.

In solving the first part of this problem, it is necessary to have a clear understanding of the aims of management in keeping employees informed. To our mind there are a number of important aims, and we will outline some of them and make a few suggestions as to how they might be handled.

Perhaps the primary purpose in keeping employees informed of company affairs is to increase their confidence in the company and its manage-

## EDITORIAL

ment. To achieve this, we might break down the mystery which surrounds the company's published financial statements, cloaked as they are in technical accounting form and terminology. As an example, it is probably a source of unending mystery to anyone unfamiliar with accounting practice that it is possible to add up these two columns of seemingly unrelated units and get exactly the same total—that the balance sheet balances.

Accountants who have worked out simplified balance sheets have got away from this mysterious balancing of the two sides and have presented the information as a continuous statement showing assets, deducting liabilities, leaving net worth. Assets might be detailed, using simple descriptions under the heading "What We Own" or some such term; liabilities similarly might be detailed under "What We Owe". In this way, with careful thought, simplified statements have been worked out which present all of the information in the technical statements in a form and in language which can readily be understood by the average man. When employees are put in a position where they can understand the financial affairs of the company, and when they can see that the management is making the attempt to keep them informed, it is reasonable to suppose that greater confidence in both company and management will result. This feeling of confidence can be increased by informing employees of other phases of the company's activities, such as plans for the future, cost to the company of employee benefits, marketing problems, nature of production in other departments or plants and other things.

A second aim of our information campaign might be to break down employees' distrust of profits. This might be done by breaking down the sales dollar, in tabular or pictorial form, showing the relationship between wages to employees and profits to investors. Probably the greatest selling point, however, is the favourable effect continuing profits have upon wage rates and stability of employment. We should show employees that it is just plain good business to work for a profitable company. There are several ways that statistics can be used to drive home this point. Comparison of employees' earnings in your company with the average for the province, the country, or industry as a whole, comparison of wages in your industry with those in some less profitable industry are two. There are many other illustrations which might be used, depending on what the figures divulged.

Our third aim might be to overcome employees' resentment of shareholders. This might be done by comparing number of shareholders with number of employees; by showing the amount of money invested in buildings, equipment and inventory for each employee, which shows the cost of providing each employee with the tools by which he earns his living; if reinvestment of profits has been made over a period of years, this fact might be illustrated to show that shareholders are not out to squeeze every last cent of profit out of the company. In these and other ways employees might be sold on the idea of the investors in the company being beneficial to them.

Only a few of many possible ideas on what information should be given employees have been set out here. The subject is a large one, but careful thought and research into what others have done should put any of us in a position to handle the job.

## COST AND MANAGEMENT

There are many media through which this information might be presented; the employee magazine, letters to employees, radio broadcasts, special employee edition of the annual statement and others. A selection can be made, depending on the amount of money to be spent, the number of employees to be reached and other factors.

We have seen that by various means of keeping employees informed about their company we might hope to accomplish something in the way of improving industrial relations by increasing employees' trust and confidence in their company, its management and its shareholders, and by breaking down their distrust of profits by showing that it is plain good business to work for a profitable company. Would you not call that a project worthy of the effort?

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## Examination Dates

The following are the dates set for the Spring examinations:—

Fundamentals of Cost Accounting .....	Monday, April 26th
Accounting I .....	Tuesday, April 27th
Advanced Cost Accounting (Paper I) .....	Wednesday, April 28th
Accounting II .....	Thursday, April 29th
Industrial Organization and Management .....	Friday, April 30th
Advanced Cost Accounting (Paper II) .....	Saturday, May 1st
Business Mathematics .....	Monday, May 3rd
Industrial Legislation .....	Tuesday, May 4th

Candidates are reminded that applications for writing examinations must be filed by April 1st next, accompanied by the prescribed fee.

Members of Cost & Management Institute can obtain forms from Mr. G. B. Clarke, 1201 The Royal Bank Building, Montreal, Que.

Members of The Society of Industrial Accountants of British Columbia can obtain forms from Mr. C. H. Davis, R.I.A., 3538 W. 34th Avenue, Vancouver, B.C.

Members of The Society of Industrial Accountants of Alberta can obtain forms from Mr. F. H. Ougden, R.I.A., 1439-9th St. N.W., Calgary, Alberta.

Non-resident Members and Members of the Society of Industrial and Cost Accountants of Ontario can obtain forms from Mr. J. N. Allan, R.I.A., 66 King St. E., Hamilton, Ontario.

Members of The Society of Industrial and Cost Accountants of Manitoba can obtain forms from Mr. J. H. Smith, Hudson Bay Company (Retail) Portage Avenue, Winnipeg, Manitoba.

## COST AND MANAGEMENT

### New Members

#### Bay of Quinte

James G. Scott, P. M. Till, C.P.A., Belleville, Ontario.

#### Calgary

Charles D. Sauter, Madison Natural Gas Co., Turner Valley, Alberta.  
Sydney Mitchell, The Trading Post, Calgary, Alberta.

#### Edmonton

Gordon R. Chambers, Northern Utilities Ltd., Edmonton, Alberta.  
Karl F. Hill, Department Public Works, Canada, Edmonton, Alberta.  
Romeo J. Arcand, Department of National Revenue, Edmonton, Alberta.  
Harry W. McKim, Unemployment Insurance Commission, Edmonton, Alberta.  
Michael Kasper, North West Industries Ltd., Edmonton, Alberta.

#### Hamilton

Kenneth G. Muir, Brantford Coach & Body, Brantford, Ontario.  
Charles E. Madgwick, Robbins & Myers Co. of Canada Ltd., Brantford, Ontario.  
Harry F. Lundy, Robbins & Myers Co. of Canada Ltd., Brantford, Ontario.  
James Brown, F. W. Bray Ltd., Hamilton, Ontario.

#### Kent County

W. Raymond O'Loane, B.A., C.A., Robertson, Robinson, McCannell & Dick, Chatham, Ontario.  
Doris L. Rumsey, Lalombard Auto Electric Ltd., Chatham, Ontario.

#### Kingston

H. V. Clark, Canadian Industries Ltd., Kingston, Ontario.  
Oliver D. Wing, W. J. Wing, Kingston, Ontario.

#### Kitchener

James L. Lamont, Excellence Flour Mills Ltd., Seaforth, Ontario.

#### Montreal

R. Lefebvre, Quebec Hydro Electric Commission, Montreal, Quebec.  
P. J. Murphy, Champlain Oil Products Ltd., Montreal, Quebec.  
K. L. Clogg, R.C.A. Victor Co. Ltd., Montreal, Quebec.  
G. B. Redfearn, Seeley Systems (Que.) Ltd., Montreal, Quebec.  
G. Veillette, Canadian Comstock Co. Ltd., Montreal, Quebec.  
K. E. Norris, Liquid Carbonic Canadian Corp. Ltd., Montreal 16, Quebec.  
G. Watkins, Liquid Carbonic Canadian Corp. Ltd., Montreal, Quebec.  
Wm. A. MacKinnon, W. C. MacDonald Inc., Montreal, Quebec.  
G. T. Frew, Canada Cement Co. Ltd., Montreal, Quebec.  
G. W. Baird, Cecil Carpenter Co. Ltd., Montreal, Quebec.  
S. Rosoph, F. A. Price Coal Co. (Canada), Montreal, Quebec.

#### Niagara

James P. McKenna, Hayes Steel Co. Ltd., Merritton, Ontario.  
R. T. Galvin, Jordan Wine Co. Ltd., St. Catharines, Ontario.

## COST AND MANAGEMENT

John O. Sewell, Yale & Towne Manufacturing Co., St. Catharines,  
Ontario.

### Ottawa

Dorothea I. Craig, J. H. Connor & Son, Ltd., Ottawa, Ontario.

### Toronto

T. F. Penman, Ferranti Electric Ltd., Toronto, Ontario.

W. J. L. Hutchison, Addison Industries Ltd., Toronto, Ontario.

Sydney A. Jackson, Canadian Acme Screw & Gear Co., Toronto,  
Ontario.

Douglas S. Read, J. H. Stafford Industries, Toronto, Ontario.

### Vancouver

Eric G. Begg, B.C. Electric Co. Ltd., Vancouver, B.C.

Gordon J. Petherick, B.C. Telephone Co. Ltd., Vancouver, B.C.

### Windsor

D. W. Hopkins, Backstay Standard Co. Ltd., Windsor, Ontario.

J. T. W. St. Aubin, Walkerville Lumber Ltd., Walkerville, Ontario.

Harold F. Lenehan, Standard Paint & Varnish, Windsor, Ontario.

Rex. A. Bicks, O.B.E., Chrysler Corp. of Canada, Windsor, Ontario.

E. Bruce Daubney, C.A., Brokenshire Scarff & Co., Windsor, Ontario.

### Non-Resident Alberta Society

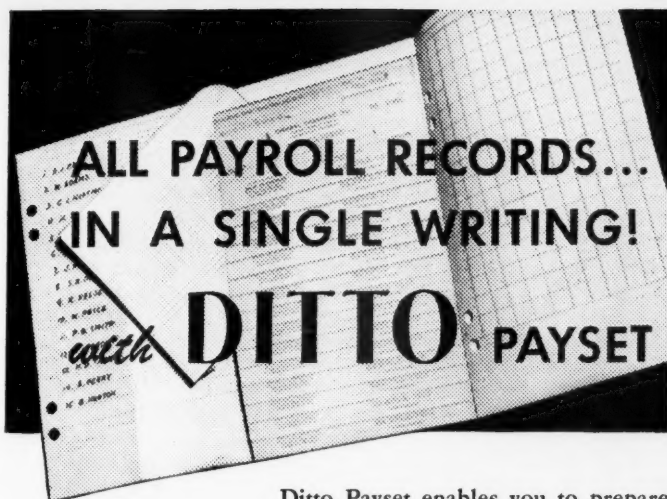
Edward J. Hunter, Thompson Lundmark Gold Mines Ltd., Yellow-  
knife, N.W.T.

### Non-Resident B.C. Society

Ronald H. Griswold, Canadian Mining & Smelting Co. Ltd., Trail,  
B.C.

## Chapter Standings for Fernie Trophy

	Basic Points	Increase Senior Members	Increase Student Members	Point Increase	Percentage Increase
Vancouver .....	161	— 3	52	46	28.5
Lethbridge .....	35	2	3	7	21.2
Hamilton .....	335	9	45	63	19.0
Fort William-Port Arthur .....	88	4	8	16	18.2
St. Maurice Valley .....	69	4	1	9	13.1
Kelowna .....	26	1	1	3	11.5
London .....	116	1	10	12	10.4
Niagara .....	100	4	1	9	9.0
Windsor .....	156	4	5	13	8.3
Kitchener .....	127	2	4	8	6.3
Toronto .....	441	5	12	22	5.0
Montreal .....	483	—	20	20	4.1
Calgary .....	182	—	9	7	3.8
New Westminster .....	35	—	1	3	3.0
Edmonton .....	151	— 1	5	3	2.0
Bay of Quinte .....	35	1	— 2	—	—
Quebec .....	120	— 1	— 5	— 7	— 5.8
Victoria .....	54	— 3	2	— 4	— 7.4
Kingston .....	76	— 5	—	— 10	— 13.1
<b>New Chapters—Increase Based on Initial Membership</b>					
Kent County .....	30	10	2	22	73.3
Winnipeg .....	83	—	45	45	54.2
Eastern Townships .....	59	4	17	25	42.3



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## COST AND MANAGEMENT

### Chapter Notes

#### BAY OF QUINTE CHAPTER

The regular monthly dinner meeting of the Bay of Quinte Chapter was held at the Bar B-Q Restaurant on January 19th.

The Chapter was host to the members of the Belleville Superintendents' Association. Mr. R. A. Read of J. D. Woods & Gordon Limited, Toronto, was the guest speaker and his subject was "Planned Control in Industry". Mr. Read used as a basis for his talk an actual test case. He outlined the difficulties presented to his firm at the outset, the prime reason being large inventories and relatively small capital. Briefly his "Planned Control" involved advance Sales Forecast by product and resulting machine-time applicable to various production departments. If advance Sales Forecast did not result in full time production in all departments, Sales Department would be advised and particular sales promotion would be given to products complimenting production time in the pre-determined slack departments.

Particular emphasis was given to determining most economical production quantities, the chief headache of most concerns these days being large inventories. In this respect the relative cost of warehousing which included cost of insurance, storage, interest, depreciation and obsolescence of each individual product was compared with the cost of machine set-up for the production run. The idea was to present an economical means whereby maximum inventory may be kept relatively low by more frequent runs of products with low cost machine set-up. At the conclusion of the question period, George Brooks ably thanked the speaker on behalf of the Chapter.

#### EASTERN TOWNSHIPS

Deep in the foothills of the Appalachians, where the Magog tumbles down into the St. Francis, nestles the Queen of the Eastern Townships, Sherbrooke, garbed in her ermine mantle of snow dotted with dingy factories and coal piles. A louse in all this luxury looks up from his copy of Cost & Management and exclaims: "Migosh, it's half-past January. If I'm going to beat that ground-hog, I'd better raise the Iron Curtain before the other chapters from Three Rivers to Victoria think we've folded." So your retarded reporter, with his dog-eared program in one hand and his find-and-peck portable in the other, pushed his way to the sun while racking the roots of his hair for the highlights of the past six months.

Underneath one root bearing the date—September 25th, he found that Mr. P. T. R. Pugsley, C.A., of the firm of Ryan, Payne & Pugsley, mentioned in his talk on "Executive Training in the Office" that a person with executive aspirations must look at training as a two-way street. The junior executive must train those under him while learning the job ahead so that when the opportunity for his own advancement presents itself he would have someone ready to fill his own job. He mentioned executive tools, such as job evaluation, reports, charts, etc., and their application to training. He



## CHAPTER NOTES

spoke on various forms of training, as membership in accounting societies, work on community projects, J.I.T., etc.

On October 23rd, Mr. T. P. Dalton gave his talk on "Labour-Management Relations". As this talk was published in Cost and Management, your correspondent just said "whew" and passed on to November 27th, when A. Van Harris, C.A., spoke on "Pitfalls in Inventories". Just to prove we listened, we might bring up one point which could be called "Establish the Fact of the Inventory". We are reminded of this by the story of the old-time public accountant, who, in appending the usual rigmarole to the balance sheet of a paper company, included the following: "... with the exception of the item—Pulp Wood . . . \$500.00; for when I went to examine the pulp pile, lo and behold, there was no wood." In December, there was no meeting. Which brings us with a fanfare and a shout to the meeting on January 22nd, when Mr. Paul Kellogg spoke on "Industrial Management—Formal or Informal". Starting with the paper manufacturer who sixty-odd years ago kept his books in his vest pocket and winding up with the discussion on Increment Margin and PV ratio in the cost structure, Mr. Kellogg showed the necessity for formalization of management, and where it was necessary, and when it became necessary. Nicest point in the talk: He put his hand on his hip and called a standard cost system a beautiful thing.

## KITCHENER CHAPTER

The value of employee training for future more responsible jobs was stressed by Dr. Herbert Moore, of Stevenson-Kellogg Co., Toronto, at the January meeting of Kitchener Chapter, Ontario Society, Industrial and Cost Accountants, held at the Granite Club, Kitchener, January 21st.

"A most serious problem in industry today is leadership," Dr. Moore declared. "How many firms are 'breaking in' a young man for future general managership? Canada differs from the U.S.A. in this respect. There, industrialists have taken hold of the situation and in 15 years have made great strides in industrial training for top men."

The speaker added that Canadian firms should spend two per cent of outlay for replacements. Since the war, and especially during the past year there has been some action in this respect. Mr. Moore added that the manpower in Canada in quality of gray matter is ahead of the States, but that they are leading us because of lack of training.

Vice-Chairman George Egoft introduced the speaker who was thanked by Les. Hope. Chairman V. M. Buchanan presided. The February meeting is to be held at the Doon Twines, Kitchener.

## MONTREAL CHAPTER

The 1948 series of dinners and meetings were resumed on January 9th, when Mr. J. D. Benedito, Sales Manager of the Canadian Resins and Chemicals Limited, addressed some 45 members and guests of the Chapter on "Plastics in the World Today", mentioning some of the problems and possibilities in "plastics". He attributed some of the set-backs to poor publicity, which had failed to educate the buying public on the various types of plastics and the proper selection of a grade best suited to the requirements.

## COST AND MANAGEMENT

Various samples were shown to substantiate achievements and emphasis was placed on the reliability and lightness of new plastics as a substitute for materials and metals.

"Revision of the Dominion Companies Act" was the subject of the address to Chapter members at the dinner and meeting of January 23rd. The speaker, Mr. E. Binney Fairbanks, C.A., B.C.L., was introduced by our Provincial President, Mr. D. R. Patton, and thanked by Mr. F. W. Naylor.

Highlights of the address were: (1) advantages of the 1934 Act revised in 1935, termed as a "good act" with possible rewording or clarifying of articles 12-A, 51, 61 and 114, and (2) praise for the excellent study and recommendations made by the Research Committee of the C.A. Society.

Meeting presided by Mr. A. Van Harris, was attended by some 60 members and guests.

## NIAGARA CHAPTER

The Niagara Chapter held their first dinner meeting of the 1948 season at the Leonard Hotel on Wednesday, Jan. 21st, 1948. Over sixty members and guests were in attendance.

Mr. J. Nelson Allan, Secretary-Manager of the Canadian Society of Cost Accountants and Industrial Engineers, was in attendance and gave a brief report of the progress of the Society across Canada.

In the absence of Chairman A. Chesher, Vice-Chairman D. Jones presided and introduced the guest speaker of the evening, Mr. Fred Gropper, Supervisor of Methods and Standards of the E. I. Dupont De Nemours and Co., Niagara Falls, N.Y.

Mr. Gropper capably presented his subject—"Labour Cost Control," and during the course of his subject, stressed the importance of the place that the Methods Engineer takes in modern industry.

Following a lively discussion period, Mr. F. A. N. Haultain tendered the thanks of the Chapter to the speaker.

## OTTAWA CHAPTER

The Ottawa Chapter held their monthly meeting on Thursday evening, January 22nd, at the Ottawa Journal.

The first part of the evening consisted of a tour of the presses which were in operation at that time.

The members then went to the Bytown Inn, where they had dinner.

After the dinner they returned to the Journal, and resumed the tour of the other operations, such as the reporting, editing, linotype operating, and classified section.

The group then gathered in the accounting office for a general discussion of the accounting and costing procedures. Mr. F. Planta, of the Journal, agreed to supply the answers, which kept him busy for over an hour. The variety of questions asked covered practically every phase of the newspaper industry and were of great interest to everyone.

At the close of the evening, Mr. Hyndman thanked Mr. Planta and the Journal for a very enjoyable and educational evening.

## CHAPTER NOTES

### TORONTO CHAPTER

A meeting of the Toronto chapter was held on January 15th, in the Oak Room. At this meeting, members of the Institute of Internal Auditors were the guests of the Toronto chapter. Also present as head table guests were executive representatives of the Institute of Chartered Accountants, Certified Public Accountants and General Accountants who were introduced by the chairman, Mr. M. C. Coutts.

Mr. C. J. Dutton introduced the guest speaker, Mr. Wood, C.A., a member of the Institute of Internal Auditors and director of the audit division of Lever Bros., who spoke on Internal Auditing.

The speaker outlined the history of auditing in the public accounting field and the more recent development of internal auditing in the larger corporations. The speaker very ably outlined the requirements for an internal audit division, the type of personnel, duties, reports, authority and responsibilities. The prime purpose of such a division is to interpret the policies of top management so that such policies may be thoroughly understood by the lowliest member of the corporation and to report to top management in a concise yet comprehensive form when such policies are not being carried out.

Mr. H. MacDiarmid extended the thanks of the chapter with the sincere wish that Mr. Wood will at some future date again address the chapter.

On January 7th, a dinner meeting of the student group of the Toronto chapter was held at the Diet Kitchen. For this meeting three of the student members who are writing their thesis spoke on practical applications of standard costs. The speakers were introduced by Mr. J. Logan, chairman of the student group.

Mr. S. Duxbury spoke on standard costs for grey iron castings for stoves. Mr. H. Cannon spoke on standard costs in the baking industry and Mr. F. Thickett spoke on standard costs in a jobbing grey iron foundry. Each of these gentlemen spoke on a system which they have personally installed and are supervising. These talks were very ably presented and the lengthy question period which followed each talk showed the keen interest of the students in practical standard cost problems.

### VANCOUVER CHAPTER

The regular December meeting of the Vancouver Chapter was held in the Hotel Georgia, on Thursday, December 18th, and was most ably addressed by our fellow member, Mr. L. C. Reid, A.P.A.

Mr. Reid is with the Department of National Revenue, and spoke on the subject: "Sales Tax: The Methods and Principles of Application." While Charlie made it quite clear that he was not speaking officially as a representative of the Department, nevertheless, he managed to clear up numerous points which apparently had been bothering many of the members, and certainly added much to our knowledge and understanding of the Act.

A very lively discussion period followed the address.

Mr. K. H. Orr, our chairman, closed the meeting by wishing to all, the compliments of the season.

## COST AND MANAGEMENT

Vancouver Chapter held two meetings in the month of January, 1948: one especially for the students, and the other being our regular Monthly Dinner Meeting.

The first meeting was held on January 8th in the Vancouver Sun Auditorium and was primarily devoted to the many new student members. Short addresses were given by Norm Terry, Third Vice-President of the Canadian Society; Nick Abramsen, President of the B.C. Society; and Cliff Davis, Vice-Chairman of Vancouver Chapter, who explained to the students some of the history of our organization and the many advantages which went along with their membership. The talks were followed by three very interesting films supplied by the University of B.C. Extension Department.

The regular Monthly Dinner Meeting was held in the Hotel Georgia on Thursday, January 15th, and was addressed by Mr. E. M. Gunderson, C.A.

Mr. Gunderson chose as his topic a review of the Income Tax Act and the proposed amendments. His short outline of the early developments of taxation led up to the beginning of the income tax and from there to the review of the proposed Bill 454, amending the Income Tax Act.

It was certainly a pleasure to hear from a speaker so well versed in his subject and it is rumoured that Mr. Gunderson has read every book on Income Tax ever published.

Charlie Reid thanked the speaker on behalf of the society and a lively discussion period wound up a very successful meeting.

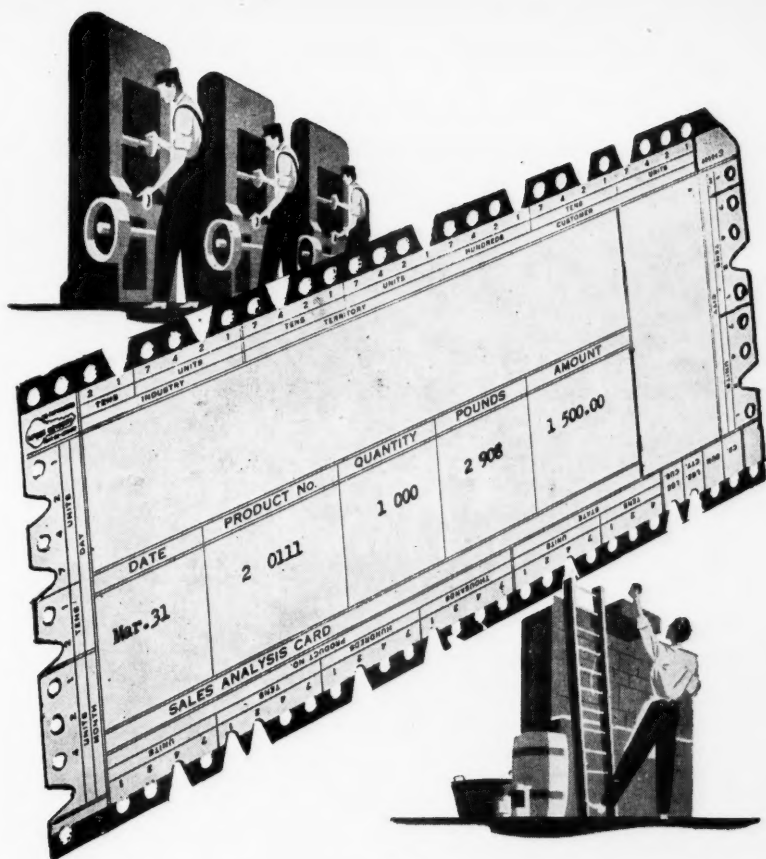
## WINDSOR CHAPTER

The January meeting of the Windsor Chapter was held at the Norton-Palmer Hotel with 61 members and guests present. Chairman G. R. James presided and introduced three new members to the gathering in the persons of: Mr. E. B. Daubney, Brokenshire Scarff & Co.; Mr. J. T. W. St. Aubin, Walkerville Lumber Co.; Mr. R. A. Bicks, Chrysler Corp. of Canada.

Mr. J. Nelson Allan, Secretary-Manager of our Society, was in attendance at this meeting and gave a brief outline of the progress of the Society during the past year. He stressed the need for qualified men in the field of accounting and felt that our Society's student group, by the successful completion of their courses, could equip themselves to help fill this need for accounting personnel.

Mr. Jim Tennant was then called upon to introduce the speaker of the evening, Mr. James Mitchell, Manager of the Accounts Payable Dept., Robert Simpson Co., Ltd., Toronto.

Mr. Mitchell spoke on "Accounts Payable Procedures". In his talk, Mr. Mitchell covered the use of the Voucher system, Ledger system, and Punch card system, outlining the advantages and possible disadvantages in the application of each of these systems to Accounts Payable. He proved to his audience both his ability as a speaker, and his wide knowledge of the subject on which he spoke. A most interesting discussion period followed the talk, following which Mr. George Carter extended a cordial vote of thanks on behalf of the members to Mr. Mitchell.



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## Current Literature Digest

By HAROLD BRICKER, C.G.A., R.I.A.

While we are comparatively free of the immediate demand for financial information for our labour personnel, we should give some attention to our financial reports to our shareholders and the public. The Journal of Accountancy, 85-5-401, has published an article by Don Knowlton, Cleveland, under the heading of "Financial Statements Need Not Be Failures As Public Relations Tools for Management".

The financial vice-president says: "Anybody who reads our financial statements knows better than that!" But, how many readers are able to read financial statements, with the background knowledge of the accountants who built them up? A public relations man has an imaginary conversation with the controller. He falls into the same confusion as the layman, when he understands, or attempts to understand a financial statement.

When the controller was reminded that few people can really fully read financial statements, he recalled that he was of the firm conviction that the misconception among the public, and among the employees, of his company's profits, was due solely to the unions, the New Deal, the college professors, the crackpots and the communists. It became evident that published financial statements have not done the public relations job that they are presumed to do. Without question the statements present the facts, but unfortunately, they present them in such a form that nobody except an accountant, a banker, a controller, a statistician, or what may be called a "financial investment man" can understand them.

That is not the whole story. Many of the words in accounting terminology in financial reports have a connotation that is most unfortunate and tends to give readers, in many cases, an impression that is absolutely contrary to the facts. The excuse offered is that terminology in financial statements must be fixed and universal. The terms must be as universal as Latin is to Botany and Medicine. Any other course would lead to universal mis-interpretation and chaos. There is merit in that stand but it need not follow that public relations need be sacrificed for that consideration alone.

The profession itself is well aware that some changes should and must be made. What we need is a new vocabulary of financial terms. If various companies proceed to make their own improvements, we are liable to ride off in all directions and develop a mass of new and conflicting terminology that may result in a jumble of new words, still so confusing, that they will have no constant meaning to anyone.

Unless we are so neglectful as to let accounting terminology drift to individual whim, into a madhouse of conflicting terms, it would seem timely and imperative that public accountants, controllers, bankers, and public relations men get together on the study of the whole problem of the semantics of financial reports, and arrive at a new, simple, terminology, more in line with public understanding, which they can jointly recommend for universal use.

## CURRENT LITERATURE DIGEST

### THE INTERNAL AUDITOR LOOKS AT COMPANY POLICY

Arthur E. Hald, has presented an article in *THE INTERNAL AUDITOR*, under this subject. (12-4734). Static policy often indicates a decadent organization. Any review of a company's organization and operations must be founded on what the mission of that company is and what its policies are. The policies set out the administrative means by which the purposes of the company are accomplished. The vitality to the mission is found in the policies from which the goal of the company is designated.

The policy of an organization is a combination of the formal written pronouncement by the managerial authority, together with the unwritten policy established through the traditions and habits of the industry and formed in the thinking and attitude of the personnel. It is reflected through the entire organization in the methods of operations and in the cost of doing business. Policy becomes the normal way of doing things.

But, a large part of company policy is not freely created. The foundation of a large part of the policy is based on union influences and the regulation of governmental authorities and statutes. These statutes may be federal, provincial or local. With export business, these may all influence the policies in finance, personnel, sales, safety, sanitation, welfare and transportation and other factors.

Should policies be audited internally? The internal auditor, if he is competent and effective in his responsibility and has the innate sense which characterizes a good auditor, must develop an attitude of mind toward policy. That is, overall company policy. He should acquaint himself with all the details of policy both determined internally within the company and originating from external authority.

In recent years, executive have been, to a considerable extent, precluded from making personal observation of the details of administration and operations. The findings of the Internal Auditor can be a guide and an influence in the making of policy, but he should avoid the creation of policy. Reliance for unbiased factual reporting of conditions has had to be placed on staff agents, among them, the Internal Auditor. Internal auditing, as progressively practiced in many organizations, is creating standards and philosophies for the review of policy and its effective contribution to efficient operation.

### THE LIMITATIONS OF ECONOMIC PLANNING

We are apt to be so engaged in our own problems of business that we do not take time to learn the conditions in other parts of the world or perhaps do not even care about what the rest of the world is doing economically.

The Accountants' Magazine, LI, 509-444, published an article on the above subject by R. W. Moon, A.C.A., which expresses some new points of view.

"Economic Planning" has become so fashionable in recent years that we are in danger of losing sight of the purpose and limitations implicit in this large scale planning. Thus, the idea of regulating by deliberate act of policy what was formerly left to work itself out through the free, unfettered laws of supply and demand, now finds a wide measure of accept-



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ance. An international version of this long-term planning is sketched out in the report of the Committee of European Economic Co-operation,—the Marshall Plan,—and nearer home we have an agricultural plan which opens out the prospect of a 20 per cent increase in output over the next five years.

During the war the state was, for all practical purposes, the ultimate buyer for nearly all the goods and services produced. In such circumstances the technique of quantitative planning is comparatively straightforward. The reverse is true to-day. Instead of manufacturing for war purposes, our efforts are now concentrated on rebuilding our export trade. It may be within the province of the state to stimulate and encourage export trade, but it is not the purchaser of the goods. Clearly, the Cripps proposals embodied in the export plan add up not so much to a plan as just another set of aspirations.

The volume of export trade will depend upon design, quality, price, and ability to deliver the goods on time, and no amount of planning will alter those basic facts. A country which is as dependent as we are on supplies of food and raw materials from abroad cannot have a planned domestic economy coupled with an unplanned trade. Direction of labour and tighter allocation of materials are imperfect means compared with fiscal policy which drains off the excess purchasing power in the hands of the community, thereby releasing man-power from non-essential occupations as well as allowing materials to be switched to essential industries.

Quantitative plans extracted by the government are not so exact nor so capable of achievement as the smaller edition of the same plans used in industry under the title of "Budgetary Control". The grand scale budgetary control of the government, which it construes as "economic planning" is best left to individual firms which have had longer experience in the methods employed and are already aware of the defects inherent in a system of business forecasting.

Grandiose plans supported by a wealth of statistics which, in the special conditions of the war happened to bear fruit, are not the panacea for the cure of all economic ills in peace time. However, force of circumstances made it imperative that we should accept more State intervention and direction in our economic life, than was conceded necessary in pre-war days. Some measure of guidance is vital if the process of readjustment is to operate humanely.

While many people might argue that they have been subjected to an overdose of planning,—a contagious disease which often bears the stamp of planning AGAINST the people instead of planning FOR THEM, it may lead to recovery.

This suggests, indeed, that the British are approaching the future with confidence and design for a democratic freedom of living and doing business.



## Labour-Management Relations—A Test Case

Highlights from a talk by FRANK DOWSETT

Personnel and Export Manager, Robinson Cotton Mills Limited

The harmony that has long existed between the management and the employees of Robinson Cotton Mills Limited is the result of a long term personnel program that is highlighted by two main points.

1. The full and frank statements made by management to the employees at all times, on paper, concerning matters of mutual interest.
2. A generous program of employee welfare, both now and in the past, that provides the maximum standard of living within the limits of the overall conditions prevailing in the industry.

The present agreement pertaining to wages and working conditions, dated October 1st, 1947, accepted and signed by 100 per cent of the Robinson employees, is the direct outcome of this long term program. Most of the items shown in the Agreement detailed below have been in force over a period of years. The Productive Co-operative Bonus Plan that concludes the agreement stems directly from the introduction of a Cost of Living Bonus of \$2.50 per week in April, 1947, which was instituted because of the rising cost of living. The new Bonus Plan has now replaced this cost of living bonus.

The details of our contract will be, I believe, of greater interest to your members than a discussion of the theory and practice of labour relations in general. There is nothing startling or new in our agreement. It is but one example of a policy that is creating and maintaining mutual trust and understanding between management and employees, even in the face of the severe financial strain, with the consequent fears and unrest, that is at present confronting the average Canadian family.

### MEMORANDUM OF AGREEMENT PERTAINING TO WAGES AND WORKING CONDITIONS

BETWEEN  
ROBINSON COTTON MILLS LIMITED  
AND  
EMPLOYEES OF ROBINSON COTTON MILLS LIMITED

Until further notice, the Company agrees:

#### TO PAY BASIC WAGE RATES

- (a) To all male employees, exclusive of the Engineering Department, the wages as recorded in Schedule A.
- (b) To all female employees the wages as recorded in Schedule B.
- (c) To all employees of the Engineering Department the wages as recorded in Schedule C.

#### TO CONTINUE THE PRESENT PENSION PLAN

A pension fund for employees has been in force for over nine years. The Company pays a proportion of approximately two-thirds of the con-

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tribution to the employee's proportion of one-third. Full details are given in the Employee's Manual. This manual will be rewritten in conjunction with the completion of our new spinning and weaving unit.

### TO PAY FOR ANNUAL VACATIONS

An employee is entitled to one week's holidays with pay for the first year of employment, and to two week's holidays with pay after one year's service.

Vacation pay will be calculated as follows:—

An employee who has been on the Company payroll for less than 12 months at the time that he is given his one week's vacation will receive as remuneration for the one week that he is absent on vacation a sum calculated as 2 per cent of his wages since joining the Company.

An employee who has already had a vacation period with the Company will receive, upon taking his second and subsequent vacation periods of two weeks' duration, a holiday pay calculated as 96 hours times his basic hourly wage rate plus the hourly rate of the Productive Co-operative Bonus.

### TO PAY FOR STATUTORY HOLIDAYS

In addition to annual vacation with pay, the Company will observe the following seven statutory holidays for which the worker will receive his basic hourly wage rate, plus the hourly rate of the Productive Co-operative Bonus based upon the shift hours that the employee would have worked had the day not been a statutory holiday.

New Year's Day

Good Friday

Dominion Day (1st Monday in July)

Civic Holiday (1st Monday in August)

Labour Day (1st Monday in September)

Thanksgiving Day (as proclaimed by the government)

Christmas Day

### TO PAY DURING SICKNESS

After one year's service, an employee will be paid for sickness that is certified by a doctor, as follows:—

First week—No pay.

Next four weeks—Basic hourly wage rate plus the hourly rate of Productive Co-operative Bonus.

Next four weeks—Half basic hourly wage rate plus half the hourly rate of Productive Co-operative Bonus.

### TO PAY TRANSPORTATION ALLOWANCE

To employees living outside the town limits of the Village of Woodbridge, ten cents per mile, to be paid for each day worked in a pay period. The maximum number of miles for which transportation will be paid is ten miles.

### TO PROVIDE REST PERIODS

Regular rest periods of fifteen minutes in the morning and ten minutes in the afternoon are allowed.

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It is expressly understood that with the exception of the Grey Sewing Department and the Make-up Department, no machine is to be stopped for the purpose of rest periods, and it is agreed that before an operator leaves a machine he will make arrangements for someone to take the responsibility of its operation. It is also further understood that rest periods are timed from the leaving of the work being performed to the return to same.

### **TO PAY SERVICE AWARDS**

One hundred dollars cash per period for continuous service of six, ten, fifteen, and twenty years. In addition to the \$100 for the twentieth year of service, an employee will be given an engraved gold watch as a memento of the occasion.

### **TO GIVE CHRISTMAS GIFTS**

To continue the giving of Christmas gifts to each employee. This is not a bonus, but a practical expression of good will to all employees at the Christmas season.

### **TO PROVIDE MEDICAL EXAMINATIONS**

All employees are required to submit to periodical medical examination by the Company doctor at the Company's expense.

### **TO CORRECT HOUSING SHORTAGE**

The Company plans to eliminate, as far as practicable, the present housing shortage in the village of Woodbridge as soon as building conditions permit, by building and renting additional Company houses to employees.

### **TO MAINTAIN A SUGGESTION BOX**

The Company will pay cash awards for all acceptable ideas for improving production. Awards will be paid on the basis of the practicability and usefulness of the idea submitted.

### **TO PROMOTE SAFETY**

A plan of cash awards to the Safety Committees, with deductions for time lost through accident, will be instigated and continued as long as interest and a satisfactory safety record are maintained.

### **TO RECOGNIZE THE BARGAINING AGENCY**

The Company recognizes the Robinson Employees' Association as the bargaining agency and contact group on all matters affecting the welfare of the employees, and the Company agrees to act promptly and fairly in arriving at proper conclusions on all suggestions brought to their attention.

### **PERTAINING TO ELM PARK**

Although the park was originally purchased for the exclusive use of our employees, the Company has, nevertheless, agreed with the Village of Woodbridge and District to allow the War Memorial Committee to operate the park for gain as a private park, the profit of which is being kept in trust for the purpose of establishing a proper sports centre as a war memorial for the community.

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### TO PROVIDE A PRODUCTIVE CO-OPERATIVE BONUS PLAN

As well as the foregoing, the Company agrees to pay in addition to Wage Schedules A, B and C, a Productive Co-operative Bonus of 20c per hour for each male employee, and 10c per hour for each female employee, who commits himself or herself to the conditions of employment enumerated in the Employee's Agreement herewith, failing which, it is definitely understood that the Productive Co-operative Bonus is not applicable.

The foregoing Productive Co-operative Bonus will be paid on the first or second pay day of each month for all hours worked during the preceding month.

Should an employee fail to earn during a monthly pay period the Productive Co-operative Bonus by failing to comply with all the terms of the Employee's Agreement, then he shall not receive any Productive Co-operative Bonus for the month in which he fails any of his commitments.

### FRANK STATEMENTS TO EMPLOYEES

The following extracts from a letter signed by Mr. W. W. Robinson, Managing Director of the Company, and handed to every employee with a copy of the agreement, illustrates the frankness of the explanations made in this particular case and also on all other questions of mutual interest.

"A careful study of available figures from authoritative sources and of current union demands, reveals the fact that our present basic pay rates, plus the Employee benefits, are still more than those prevailing in our own Industry and also in most other manufacturing plants. This is especially true where higher hourly rates are based, not on a steady fifty-two week employment, but on spasmodic production where the workers are under the constant threat of seasonal layoffs.

The new Robinson Productive Co-operative Bonus will be retroactive to September 1st. In brief, it will give you the basic rate of pay, less the present five per cent hour cost of living bonus, plus the new Productive Co-operative Bonus consisting of 20c per hour for all male employees and 10c per hour for all female employees, regardless of their basic rates.

It is only by exercising the utmost efficiency that we can keep up the present standard of pay, the employee benefits and the new bonus. In signing the current agreement, each employee obligates himself to give as well as take. Even without the bonus, we believe that we are paying the most in our own highly competitive industry. In getting more, your personal obligation is clear. Efficiency must increase. A full day's work for a full day's pay and a genuine interest in the Company's welfare are essential to our future success. From now on, this extra inducement must be earned by every employee who wishes to stay with our organization. The basic pay and the employee benefits are a fair reward for the regular work asked. The Productive Co-operative Bonus is just what its name implies, a reward for full production and keen co-operation. Employees who do not co-operate will be subject to the loss of their bonus and this must be thoroughly understood when each individual signs the new agreement which outlines in full how and when the bonus will be paid.

We are facing troublesome days. This new policy is planned to see them through successfully. Good employees, interested in their work, will benefit in a practical way. A poor employee, either unwilling or unable to

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do an efficient job cannot hope to benefit on an equal basis and will inevitably find himself dropped from the team.

Summing up, as stated above, to get more than the most in our Industry, every employee must give more in efficient service."

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### "QUID PRO QUO"

A careful study of the following agreement will reveal the fact that it is simply a promise to give a full day's work for a full day's pay.

In the hands of a malcontent it could be stretched to indicate a dictatorial policy, a stick held over the workers' heads. In point of fact it is a staff in an employee's hand. It represents an opportunity for employees to increase their take home pay by simply taking a keen interest in their own individual jobs, in the business as a whole and thus, in their own welfare.

The wage agreement was presented to a meeting of all employees held at the end of a working day. Following a verbal presentation by the managing director, a copy of the agreement and relative information was handed to each individual. Within twenty-four hours every employee without exception, had signed and returned the agreement, thus promising to co-operate with the management in conducting the business to the maximum benefit of all concerned.

### EMPLOYEE'S AGREEMENT

As an employee of Robinson Cotton Mills Limited, and having thoroughly acquainted myself with the agreement, dated October 1st, 1947, entitled "Memorandum of Agreement Pertaining to Wages and Working Conditions", I commit myself to the strict observance of the undermentioned conditions, failing which, I agree that I am not entitled to receive and will not be paid a Productive Co-operative Bonus.

1. To perform my duties at all times in a conscientious, energetic and industrious manner and to give a full day's work for a full day's pay.
2. To work on any shift in any capacity as instructed.
3. To pay close and strict attention at all times to the work being performed, and to pay particular attention to the quality of merchandise or to the work being produced by me, and to immediately report any irregularities to my superior.
4. To use constant and maximum care in safe-guarding all equipment and property.
5. To be completely honest, including refusal to punch other employees' time cards, or requesting them to punch mine, and to help eliminate the prevalent practice of pilfering in the plant and cafeteria.
6. To refrain from taking longer rest periods than allowed and at other times, not to leave my machine or specific place of work without the permission of my superior.
7. Not to absent myself from employment without pre-arrangement with my department manager. In case of sickness, to endeavour to cause my department manager to be notified before normal starting time.

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8. To watch the bulletin boards closely in order to keep myself up to date with respect to all regulations.
9. To conscientiously adhere to, and abide by all instructions whether of a specific or general nature.

.....  
Signature of Employee

## PROCEDURE

As stated above, in the Wages and Working Conditions Agreement, the recognized bargaining agency for our employees is a committee elected by themselves annually by secret ballot. This method of representation is also subject to an annual vote and up to date has each year met with the almost unanimous approval of the employees.

From the Robinson Employees' Association Committee, five members are selected by the employees to meet at least twice a month with the Superintendent and Assistant Superintendents of the Mill and myself. All matters of employee welfare are discussed frankly and fully and Management decisions are given promptly and in detail as to the reason for the decision taken. This point of prompt decision is, in my judgment, of the utmost importance in Labour-Management Relations. Even if the point under consideration should require some lapse of time for study, the necessity for such a review of the case and if possible an estimated time for giving a decision, should be reported at the earliest possible moment to the Employees' Committee and through them to all concerned. Nothing breeds mistrust more quickly than delay and indecision on matters that may appear to be of minor importance to Management. Remember that they are of immediate importance in the opinion of the worker or workers who raise the question.

In this connection, it is interesting to note that in over eight years of association with the Company, I can only recall the necessity of holding special meetings other than the regular committee meetings, on two occasions, except for the special meetings of all our employees for the mass presentation of a major decision.

## SUMMARY

All discussion of Labour-Management relations must eventually come down to the actual agreement existing between the two parties in each individual case. Nothing that I can add to the facts contained in our agreement is likely to change your opinion or help you to decide as to the fairness of the actual contract. Each industry, each group, even each family, has its own peculiar problems and conditions. Patience, faith in the essential goodness of the average man, understanding, fairness and above all a true and frank explanation of the reasons for each decision and action taken, will go a long way towards creating the trust and goodwill that is so essential for efficient operation and for the individual benefit of all concerned.

There are naturally, many other aspects of our personnel program that have not been touched upon in this talk, however, the sum total of all our efforts is reflected in our Agreement. I can sincerely say after eight years of personnel work with Robinsons that they have been my most interesting and pleasant years since I started out to work thirty-five years ago.

## Democracy in Management

By OMER W. COX, A.C.I.S., R.I.A.

Two world wars have been fought for the avowed purpose of protecting our democratic form of society. Yet, all forms and levels of management and administration have been lethargic about the adoption of these same principles of democracy into the science of management.

### INDUSTRIAL GROWTH

In the 18th century the production of goods attained the state of individual or household group manufacture with the aid of hand tools. Around the middle of that century inventions began to have their effect on industrial activity. With a momentum increasing in geometric proportions the industrial revolution caused the household manufacture of goods to be replaced by large factories utilizing labour-saving facilities.

The head of a production unit at that time was familiar with all phases of making the product and gave his personal and direct attention to its problems. A huge industrial organization so commonplace today covers many specialized crafts, trades, sciences and learnings. It is virtually impossible for one man or even a small group of men in the industry to have intimate knowledge of all methods, processes and problems in the organization.

With this growth in the size of the industrial unit, scientific methods of management which include the use of democratic principles have replaced autocratic methods and have exposed the "rule of thumb" executive. Yes, they have in the minds of students of the subject! But, have they in the every-day discharge of the prerogatives of management? You will agree that, with few notable exceptions, management falls far short.

### THE DEVELOPMENT OF DEMOCRATIC PRINCIPLES

Democratic principles are operative where the will of the people prevail in all important matters. In government, the process of democracy operates through an election of representatives by the people at large. The people delegate administrative powers to these representatives. A parallel is found in industry. Shareholders of a corporation elect their board of directors. But, alas, democratic principles too often are lost sight of from this point onward in either government or industry. Our hats are off to those few organizations who have voluntarily adopted democratic methods. They are pioneers and have demonstrated what can be accomplished by the utilization of these principles in management.

The early advance of democracy was predicated upon the use of force at every stage. Democracy first began to assert itself through a spirit of resistance to oppression on the part of those under subjection—not through any desire to assert the abstract right of self determination. The Magna Charta, The Bill of Rights, The Declaration of Independence, all are milestones on the road of democracy. We reap the fruits of democracy today because in years gone by people rose up at different times and used physical force against the evils of autocratic power.

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Little wonder then that the voluntary extension of the same principles of democracy into administration has been so slow outside the features instituted through force on the part of the workers. Yes, the history of democracy in management is also written in force, and closely parallels that of democratic government. The rise of labour unions to their present power was due to one prime factor—the lack of any degree of representation in management. The recognition of the rights of labour,—the human factor—which is an expression of democracy, was gained only after long and bitter struggles using force—physical and economic. The results of this development are alarming to us today in the midst of a period of the greatest industrial strife yet known. Yet, management is still reluctant to take the initiative and voluntarily extend the principles of democracy into their business.

### THE OPERATION OF DEMOCRATIC PRINCIPLES

Committees, councils or boards which are usually advisory in nature, are set up election of employees and/or by appointment of management. They cover phrases of activity which can benefit by pooled opinion and judgment. Separate committees can deal with such matters as labour-management problems, new product development, production and efficiency, sales and advertising, finance, and others. Informal consultations and discussions of policies and problems with all interested or affected persons before the institution of these policies are an expression of democratic principles. Profit sharing, wage incentives, and suggestion systems are also included.

The chief fears of those who opposed democracy in history were that the masses would not properly use the new powers placed in their hands and that chaos would result. Business managers of today seem to have similar misgivings regarding the workers. But in every instance where the workers have had a voice in the affairs of the organization, and union power has not interfered, the workers have given a good account of themselves. Industry psychologists agree that the greatest results can be accomplished by participation of the individual in all decisions affecting him. The decision becomes partly his then, and he works harder to uphold it. Those who manage only by the flagrant show of authority are traitors to their calling.

### BENEFITS TO BE GAINED

Democratic principles involve, on the part of the workers, his ability to express himself freely, representation in all matters affecting him, some measure of self discipline, freedom from fear of his job, justice and fair play, equality of opportunity, a just share of income from the business, and fraternization with those higher on the supervisory level than he.

The greatest growth and development of constructive ideas can come only from the maximum infiltration of the principles of democracy into an organization. The challenge to all levels of supervision and management is clear. If we were perfect men we would not need to consult with others. All our decisions would be right. But no human being is perfect! Let us open up the very souls of our organizations and give the principles of democracy an opportunity to operate freely, and the results will mean the greatest benefit and happiness to all.



## Labour Cost Control

By FRED GROPPER, B.Sc., M.E., S.A.M.

Supervisor of Methods and Standards of E. I. Dupont De Nemours and Co.,  
Niagara Falls, N.Y.

I have a pleasant feeling here tonight since I am aware that I am speaking on a subject in which you and I are both interested. You are men of accounting and as for me, my business is the control of costs in production, as an engineer.

Industry today is becoming increasingly labor cost conscious and there is good reason for this attitude. The labor factor is rapidly becoming the most important ingredient in the whole cost picture.

Labor gains in the past two decades have made it imperative that Management recognize the importance of labor cost and take effective measures to cope with the problem of maintaining economic labor ratios.

Let's look back a little into the history of utilization of labor. The improvement of manufacturing operations probably began with the industrial revolution in the latter part of the 18th century. Prior to the industrial revolution, work was performed in the main by craftsmen in their own homes. We can easily picture the swing from work by craftsmen in the home to organized work in the factory. Individual craftsmen found that the work they had to do was too great for one man and so came the first expansion with initial movements being made to barns or other buildings specifically constructed for the purpose. This was a genesis of the first industrial organization.

These first industrial organizations brought an end to domestic manufacture along with the philosophy "Tomorrow is Another Day". Primitive industrialists began to recognize the existence of a profit motif and the necessity for turning out more for less. They realized too that they would have to compete with other people making the same things and that only the more effective producers would remain in business. The natural result of these conditions was more and more attention to the methods of doing things with coincident reduction in labor costs.

As business expanded, competition soared and more and more did the owner recognize that manufacturing costs represented a life and death consideration so far as his business was concerned.

It is generally recognized today that cost control is vital to favorable competitive standing as well as to the standard of living of any people.

It is a well known principle that the level of a nation's living standard is dependent on the production of things per man hour. Assuming sufficient natural resources, the amount of "good things of life" that individuals possess depends almost directly on the amount that they produce.

Integrating these considerations, you can get only one solution. People must produce as much as possible and owners must contrive a means of attaining the highest possible unit production, maintaining it once it is achieved and checking this cost performance constantly. This in broad terms constitutes cost control for labor.

Now what are the means which management may employ to attain low unit labor costs and how may they systemize in such a manner as to

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have a constant check on unit production and manpower effectiveness. These are the problems I shall discuss this evening.

Obviously technological improvements have played a tremendous part in providing more things for more people, but there have been other supplementary techniques which have played an almost equally important part.

First there has been the work of methods engineers, who though constantly on the alert for technological improvements, have used to a large extent improvement techniques involving investments of the "five and dime" order.

I refer to those methods which have made it possible for workers to produce more with less effort. Engineers have developed work patterns which permit the accomplishment of a purpose with a minimum of effort. This is the same as saying that the worker can produce more product in a given interval without the necessity for speeding up his work pace.

An example of an improvement of this nature would be the proper layout of a work place on a bench. Many bench layouts exist in a manner which requires the worker to use extra work elements as well as work elements which are profligate of time. The methods engineer rearranges the bench layout with such devices as proper placement of materials, tools and fixtures with the result that many work elements are either completely eliminated or simplified from the standpoint of the time required for their execution.

While some manufacturers are unaware of it, this sort of work, which I have called methods, is positively essential for real control of labor costs. This is important. We must remember that control of costs does not consist merely of knowing accurately the unit labor expenditures, but does consist primarily of limiting these expenditures to some scientifically established goal figure.

The only real basis for establishing a goal or standard for labor utilization depends for its ability and adequacy on the standardization of work methods and the establishment of standard work patterns. How can we say that it should cost \$2.00 per hundred to make a certain type of bolt or that we should produce 120 pieces per hour, if we cannot even intelligently predict the method or work pattern the operator will utilize in the performance of the job?

What I am saying is that a standard labor cost of a job is unconditionally keyed to a standard method of doing the job. Without this your cost standards are impractical and the attainment or non-attainment of the standard levels is more a matter of chance than of good management.

With a standard method of performing the job, we are now equipped for and justified in seeking a way in which the standard cost may be properly evaluated.

Many systems employ cost sheets or experience records to establish standard cost or production levels. The major fault in these systems lies in the fact that they establish goals on the basis of what has been accomplished rather than on the basis of what can be accomplished. You see, you may have a department which has been operating on a cost of let us

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say \$.36/100, but this does not necessarily say that the cost could not be reduced to say \$.28/100 through the establishment of standard methods plus an effective means of **measuring** the potential output.

The usual method of measuring potential output is time study. My talk this evening does not concern the details of time study so I shall pass it with the explanation that it constitutes a scientific method of measuring a "fair day's work" in terms of units of production and consequently provides an accurate evaluation of **attainable** costs.

Now that we have established a standard method and have provided a useful means of converting the method into a standard time or direct labor cost, it remains for us to establish the means whereby these standard costs may be used to achieve factory costs concomitant with the established goal costs.

The first and most primitive method is known as the standard cost or standard ratio system. Here the burden for achieving goal costs is placed almost directly on the supervisors responsible for operation of the process in question.

The standard labor ratios are expressed in terms of some rational unit such as cost/100#, cost per piece, production per man hour or in the special system of measurement I shall discuss in a little while, cost per thousand B's where a "B" represents a minute's worth of work including allowances for fatigue, personal time, etc.

These standard ratios are compared periodically, usually on a monthly basis, with actual ratios or costs for the period, compiled on the same rational unit. When I say compared, I mean that supervision for the operation meets with top management responsible for overall mill costs and together they discuss the variations of the actual labor ratios from the standard labor ratios. You can easily see how this system accomplishes results. Supervision realizing that it will have to explain variations from standard labor cost ratios to top management finds itself the victim of psychological pressure and therefore exerts extra effort to minimize costly labor procedures. The supervisor's tools are the standard procedures previously mentioned plus his knowledge of the proper standards arrived at by the time study technique.

Let us take a simple example to illustrate how the system works. John Burns supervises a group of 10 people engaged in the final assembly of a small product. Engineers have established for him, the best way of performing the assembly operation. The standard procedure includes the proper work elements, the most logical sequence for these elements, the arrangement of the work place, the proper tools and the necessary fixtures required for the assembly. Time study engineers have analyzed the operation after establishment of the standard procedure and have published a standard of 10 pieces per hour. Assuming a labor rate of \$1.20 per hour and a 10% departmental contingency allowance, the standard **direct** labor ratio for John Burns' department would be \$13.20 per hundred parts assembled.

John Burns knows that in order to meet this labor ratio his workers must faithfully follow the outlined work procedure and must be provided with and use the proper layout, tools and fixture. Also each worker must put forth the average amount of effort on which the standard of 10 parts per hour was established.

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His cost achievement problem resolves itself into training his workers in the use of the proper method, exerting his supervisory prerogative in insisting on the use of the best method, seeing that tools and fixtures are kept in good condition and providing for their repair when they are faulty, providing each worker with sufficient parts so that a minimum of lost time is incurred by workers waiting for parts and seeing to it that each worker produces his share of the work with the standard of 10 pieces per hour as the basis for measurement.

At the end of the cost period, the cost group, using the production figures for John Burns's department and the total direct labor expended, calculates the actual direct labor cost ratio. For example, the period might show a direct labor cost of \$2400 in his department with a production of 16,500 assemblies. This is equivalent to \$14.54 per hundred. John Burns must explain this overage to management. If the overage is due to such things as high labor turnover, excess training problems, lack of orders, lack of parts or contingencies over and above those allowed in the standard ratio, he is forgiven. If no such explanations are available, it behooves John Burns to review his supervisory techniques and responsibilities before management sees fit to review its supervisory talent. John Burns recognizes that his performance as a supervisor is gaged to a great extent by his success in conforming to the standard ratio. **Therein** lies the value of the standard ratio system as a tool in cost control.

I will mention in passing that the same technique **can be** and is used in controlling material costs, rejections, power consumption, etc., with engineering aid given to John Burns providing him with tools to achieve the standard ratios on these "other than labor" cost items.

I wish to emphasize that in the type of plan I have just described, the burden for effective performance is placed squarely on the shoulders of the process supervision. The cooperation of labor is scarcely solicited except on the basis of good supervision-worker relationship.

Now we can go a step farther and look at the type of plan where the worker's cooperation is solicited on an overall basis.

I refer to the plan category in which the worker performance is evaluation periodically, the performance compared with a scientifically established standard level, and the employee rating published in such a way as to create interest and a certain amount of incentive toward attaining satisfactory levels of output.

This type of plan involves usually the use of the time study technique in establishing proper performance levels, but it also involves the determination of individual rather than group ratings and the publication of these ratings for the creation of interest among the workers in achieving better results.

I shall describe one such plan in detail, a plan which has proven eminently successful, and further which has shown results without the necessity for resorting to full scale incentive wage.

This plan has been referred to as the "Record of Performance Plan" or R.O.P. It is essentially a plan for rating the productivity per man hour of individual workers or where this is impractical for small groups of workers.

## LABOUR COST CONTROL

Now here is the key point. With any definitely established set of methods and procedures the production per man hour is directly dependent on the effort and output of the workers. The factors entering into the rating of the worker are simple which makes cheating and skullduggery on the part of biased individuals almost impossible. The production standards under the plan I am now describing were expressed in terms of "standard hours" or decimal parts of an hour per 1000 pieces of production. This is not an essential of the plan as it would work equally well with the standards expressed in terms of the piece work parts per hour or the Bedeaux system "B" hour.

These standards were used to calculate the R.O.P. ratings of the workers. Formulated the R.O.P. rating would be expressed as the units of production multiplied by the standards hours per unit, divided by the actual hours consumed in the production involved.

To show how this works out with numbers, let's take an actual example. Let us assume that a worker is performing the simple operation of filing burrs off castings. During an 8-hour shift he has succeeded in processing 300 parts classified by inspection as satisfactory. The production standard under the standard hour plan is 20 hours per 1000 pieces. The R.O.P. rating then would be .300 multiplied by 20, divided by 8 hours. The rating is then .75 and expresses the fraction of 100% effectiveness rating. This is another way of saying that the worker would have to produce 400 parts in an 8-hour shift to achieve 100% R.O.P. or effectiveness rating. One hundred per cent under this plan represents "a fair day's work" for a "fair day's pay".

Since the objective of the plan was to improve the productivity per man hour through competitive spirit, the next step was the posting of each employee's R.O.P. rating on a scoreboard in the department in which he worked.

In the instance I am describing it was evident from the start that the employees were interested in the score that was posted against them daily. As a matter of fact they were more interested in the publicity given their daily record than in the theory of the plan.

Nicely appointed posting boards were mounted in each department. These boards contained the R.O.P. rating for each employee for each day as well as the average R.O.P. for the previous month and the R.O.P. average for the employee to date.

At this point, I should like to interject a subject which should be interesting to those people who are strong adherents of the wage incentive technique. The people responsible for administration of the R.O.P. plan, flatly stated that they achieved results which could not have been surpassed with any known plan of monetary incentive.

This is very interesting in the light of present thinking in the United States which is more and more leaning toward humanized incentives. I am speaking of the school of thought which teaches that inciting pride of accomplishment and job interest far transcend the effectiveness of any system based purely on the pulling power of limited extra wages. This thinking is epitomized by the widely publicized "Lincoln System".

To continue with the description of the R.O.P. plan, all standards were carefully explained to the workers and no standards were put into

## COST AND MANAGEMENT

effect until all disturbing factors had been removed. Here again it was felt that the worker would lose interest in his R.O.P. rating if he were to become convinced that the standards upon which his ratings were calculated were eminently unfair.

Finally the R.O.P. plan was used in conjunction with what might be called a partial incentive. The plan had established an "hourly wage rate progression plan" instead of a fixed job rate plan. Each employee was fully acquainted with the fact that his progress in relation to wage rates would be at least partially dependent upon his R.O.P. rating over the years. Thus when the proper period of time had passed and the employee was considered for an advance to the next pay zone, his R.O.P. rating was given at least equal weighting with other factors such as service, attendance, attitude and suggestion proclivity.

The groundwork was carefully laid for the installation of the plan and it was installed only after supervision and employees had been carefully schooled in all its aspects.

It was not unusual to hear employees say "what's your R.O.P.?", "Gosh, your R.O.P. is 103% this week", or "He has the highest R.O.P. in our department".

I quote this to indicate that the plan had succeeded in obtaining employee interest. The results were closer adherence to production standards and decreased unit labor costs.

This type of plan is stronger than the previously described "standard ratio" plan since it enlists the co-operation of the first line level of potential waste, the worker. It affords supervision an additional tool with which to achieve optimum labor costs.

As in any other type of plan in which labor effectiveness is involved, the first step is the establishment of proper methods. We have talked of gaging output, measuring productivity, setting up standards of performance. These things are idealistic and visionary without some means of standardization of operating methods and procedures. We should consider it axiomatic that any discussion of labor effectiveness schemes presupposes an adequate plan of standardization.

Now we shall embark on what many consider the most advanced and effective method of labor cost control, the wage incentive system. Any monetary incentive system depends for its effectiveness on the "pulling power" of extra pay. Much as many of us would like to avoid the issue an incentive system must fall into the category of speedup.

There are many different incentive systems we could discuss but time necessarily restricts me to the choice of a few general types. These types represent the most widely used plans in the United States and should be sufficient to show the influence of incentive plans on labor costs.

First, all incentive systems represent the next higher step above the two types of controls I previously discussed. An incentive plan consists of providing monetary incentive for the worker to contribute his share of effort in attaining the cost goals or ratios we have previously mentioned.

Reviewing the progression, it looks like this, first we analyze the work and establish the best method available for its performance. Then we measure it, using the scientific expedient of time study. We then have

## LABOUR COST CONTROL

available a true evaluation of the amount of labor we can economically expend. At this point we offer the worker extra money if he is willing to meet the cost levels we have determined. This last step is the incentive wage application.

It is obvious from what I have said that in order to enlist the workers interest from a purely financial standpoint, the bait must be sufficiently alluring. If for instance you were earning \$4,000 per year, a promise of an additional \$100 per year would hardly be sufficient to cause you to exert additional effort on your job. However, the promise of an additional \$1,000 per year would probably enlist your hearty cooperation in whatever project you might be engaged. So it is with the worker. It has been determined that the extra pay must lie in the range of 20 to 30% above base rate to be effective. Many incentive systems use the figure of 25% bonus for performance at optimum labor cost levels.

The oldest and simplest type of incentive plan is the piece work. I shall not enter into a discussion of guaranteed wage rates, but shall assume that all concerns today are paying a decent living base wage. Thus I am talking of piece rates with guaranteed base level.

Here we have a plan which the worker can easily grasp. For every unit of production he can count his earnings. The pulling power of the plan is strong simply because the worker knows where he stands at all times.

A good piece rate plan will compensate the worker with 20 to 25% pay above base for optimum production output. We must remember that with incentive plans we are giving back to the worker a good portion of the money he saves through increased output. Thus, the direct labor savings are minimized. However, high production results in decreased indirect labor costs and decreased unit burden or fixed costs.

Another effective type of plan is the multiple straight time plan where the worker's base rate is dependent upon the zone in which his production level falls. An example of this would be \$1.00 for 70-80% of standard task, \$1.20 for 81-90% standard task and \$1.30 for 91-100% standard task.

I had the opportunity to observe several applications of this nature during the war. They were all highly effective, again since it was easy for the worker to predict his earnings as he went along. Here the results were somewhat decreased direct labor costs, decreased indirect labor costs and savings on fixed cost items.

I am going to take the liberty here of again interjecting a generalism on incentive wage so that we can all understand clearly just where our labor savings lie.

Obviously one of the prime reasons for incentive systems is increased production. This was particularly true during the war. However, they provide direct labor savings too, even when all of the monetary savings above task are paid back to the worker. This paradox is explained when we realize that an incentive system starts to pay bonus only when some standard task level is met.

In most instances when incentive systems are installed the general level of production is below this standard task—usually somewhere around



## COST AND MANAGEMENT

75%. Now here's the point. The average worker must first close this gap between 75% and 100% of standard task before he gets a penny in bonus. This is purely and simply direct labor savings to management. Above the standard task, direct labor savings are minimized because of bonus pay, but as I mentioned before indirect labor and fixed cost savings do accrue.

Another popular incentive system is the standard hour plan where standard tasks are expressed in decimal hours. The R.O.P. plan I talked about a while back uses this system of measurement without incentive. The incentive application works something like this. A worker turns out 500 parts in an 8 hour shift. These parts carry a standard task of 20 hours/1000 parts. Thus the worker has produced 10 hours work in 8 hours for which he is entitled to a bonus. The saving is 2 hours work for which he can be compensated at his base rate or any fraction thereof.

Again this is a desirable type of system since the worker can easily calculate whether he is ahead or behind his schedule. The system is beautiful from a costing standpoint, since departmental effectiveness can be stated in terms of actual hours vs. standard hours. Standard and actual hours are quickly converted to labor costs and departmental deficits or overages are thus easily available. Also cost estimates can be quickly compounded using average cost figures accumulated in this manner. In other words the system affords a quick check on the departmental progress and departmental costs and tells us how we stand on the matter of labor expenditures.

Finally I shall briefly discuss the Bedeaux incentive plan. This represents the premium sharing type plan and I must confess is more complicated than and less easily understandable than the ones I have previously discussed.

Measurement of a standardized job is expressed in terms of B's which are adjusted minutes. That is a "B" is a minute into which has been incorporated allowances for such items as fatigue or relaxation, personal time, unavailable delays, etc.

All work is evaluated in terms of B's and the total output for an individual or group is expressed in total B's produced. This figure is divided by the actual hours spent in producing the B's and results in the B's per hour or "B" hour. The standard B's are usually established at the normal level of 60 B's per hour. Therefore, any earned "B" hour over 60 is considered as worthy of bonus pay.

Normally a system of this type pays back to the worker 75% of the dollars he saves expressed in minutes. A simple example will serve to illustrate this point. A worker earns 80 B's per hour for an 8 hour period. His base pay is \$1.20 per hour. Now since he has produced 80 minutes work per hour he has saved  $20 \times 8 = 160$  minutes of time for the shift. Each minute of his time is worth \$.02 but he gets only 75% of this or  $1\frac{1}{2}\%$  per minute or "B" saved. His bonus then would be  $160 \times .015 = \$2.40$ .

This system falls down in that it is more difficult for the worker to know what he has earned. The labor savings accrue of course from bringing the working level to 60 "B" hour before payment of bonus as



## LABOUR COST CONTROL

well as the 25% savings retained under the plan. In addition indirect labor and fixed cost items are reduced.

The strong point of the Bedeaux system lies in the ease of cost finding and control. Everything is expressed in terms of B's or minutes. For instance a certain product cost can be expressed in terms of B's/1000 parts or B's per thousand pounds. Or a departmental cost can be expressed in cost/1000 B's. Thus for the product a quick estimate of cost is always available. For the department, the effectiveness is always apparent from comparison of standard cost/1000 B's, with actual cost /1000 B's. For example a new product is to be made. Time study engineers estimates that 1000 parts will require 2500 B's of work. If the departmental cost/1000 B's has been running at \$20.00, then the 1000 part order will cost  $20 \times 2.5 = \$45.00$ .

Effectiveness of two departments may be directly compared since the "B" is a common unit. For instance two departments having similar base rates may show \$15.00 and \$20.00/1000 B's, respectively. Since labor rates are similar the difference points the way to savings. Usually the reasons for the difference on analysis will turn out to be poor methods, inefficient use of labor, avoidable delays, etc. These can be corrected and labor costs reduced to that optimum we've talked so much about. Thus the control is equally important to the incentive aspect.

To summarize, labor cost control consists of four steps.

1st—Standardization of operating methods to determine the method of least waste. This is essential before any other type of control can be successfully applied.

2nd—Adequate measurement of the standard method to attain a proper evaluation of optimum cost levels.

3rd—Application of incentive to aid in enlisting the workers co-operation in attaining the optimum cost levels.

4th—Adequate system of checking actual performance against goal performance in order to measure the effectiveness of the first three controls.

These four controls properly applied and adequately administered will go a long way toward increasing unit output, decreasing unit manufacturing costs and increasing individual earnings without monetary inflation.

If the good Lord could but give us the united power to do these things effectively as whole nations, there is no question but that our living standards would rise to levels unprecedented in the annals of civilization.

# « STUDENT SECTION »

## GENERAL ACCOUNTING

Comments by MR. J. D. CAMPBELL, C.A., R.I.A.

## Question 5. (44 marks) ACCOUNTING I

The post-closing trial balance of Aden Lair on February 28, 1946 was as follows:

Bank .....	\$ 33,126.84	
Accounts receivable .....	25,640.17	
Reserve for bad debts .....		\$ 1,425.61
Merchandise inventory .....	24,620.00	
Prepaid expense (office supplies, \$896.45; insurance, \$760.00) .....	1,656.45	
Furniture and Fixtures .....	28,617.40	
Reserve for depreciation of furniture and fixtures .....		16,481.20
Accounts payable .....		32,184.47
Accrued liabilities (wages) .....		896.15
Capital—Aden Lair .....		62,673.43
	<hr/>	<hr/>
	\$113,660.86	\$113,660.86

Transactions for the year ending February 28, 1947 were:

Merchandise sales (credit) .....	\$327,045.60
Merchandise purchase (debit) .....	280,169.17
Accounts receivable written off .....	974.26
Cash discounts allowed to customers .....	6,219.04
Cash discounts received from creditors .....	3,720.16
Cash receipts (deposited in bank) .....	
Remittances from customers .....	326,142.55
Cash payments (by cheque) .....	
Remittances to Creditors .....	277,061.90
Wages .....	34,280.00
Office supplies .....	4,216.22
Insurance .....	2,009.00
Interest and bank charges .....	333.18
Selling expenses .....	12,167.24
Administrative expenses .....	8,712.15
Proprietor's withdrawals .....	3,000.00
Purchase of fixtures .....	2,327.80

At February 28, 1947:—

Merchandise inventory was \$21,300.00.

Prepaid expense was: Insurance, \$915.16; Office supplies, \$540.00.

Accrued wages were \$715.25.

Depreciation was to be provided at 12½ per cent on the closing balance of furniture and fixtures account.

A reserve for bad debts was required equal to 3 per cent of the accounts receivable.

## STUDENT SECTION

### Required:

- (a) Post-closing (reversing) journal entries at March 1, 1946 (without narrative).
- (b) Journal entries to record all transactions for the year (without narrative).
- (c) Adjusting journal entries at February 28, 1947 (without narrative).
- (d) Ledger accounts complete with opening balances and the postings of journal entries (a), (b) and (c).
- (e) Trial balance at February 28, 1947 on completion of (d).

### Solution

(a) (The nature of the reversing entries are dependent upon the assumptions made as to the manner of recording carried out by Aden Lair covering the prepaid expenses and accrued liabilities. The following solution is based on the assumption that prepaid expense and accrued liability accounts are not carried on the books of the concern throughout the year.)

#### Aden Lair—General Journal

##### Reversing entries 1st March, 1947

Merchandise purchases .....	\$ 24,620.00	
Merchandising inventory 28 February 1946 .....		\$ 24,620.00
Office supplies .....	896.45	
Insurance .....	760.00	
Prepaid expense .....		1,656.45
Accrued liabilities .....	896.15	
Wages .....		896.15
(b) Transactions for the year ending February 28, 1947		
Accounts receivable .....	\$327,045.60	
Sales .....		\$327,045.60
Merchandise purchases .....	280,169.17	
Accounts payable .....		280,169.17
Reserve for bad debts .....	974.26	
Accounts receivable .....		974.26
Cash discounts given .....	6,219.04	
Accounts receivable .....		6,219.04
Accounts payable .....	3,720.16	
Cash discounts given .....		3,720.16
Bank .....	326,142.55	
Accounts receivable .....		326,142.55
Accounts payable .....	277,061.90	
Wages .....	34,280.00	
Office supplies .....	4,216.22	
Insurance .....	2,009.00	
Interest and bank charges .....	333.18	
Selling expenses .....	12,167.24	
Administration expenses .....	8,712.15	
Capital—Aden Lair .....	3,000.00	
Furniture and fixtures .....	2,327.80	
Bank .....		344,107.49

# COST AND MANAGEMENT

## (c) Adjusting entries at 28th February 1947

Merchandise inventory (28 February 1947) \$	21,300.00	
Merchandise purchases .....		\$ 21,300.00
Prepaid expenses .....	1,455.16	
Insurance .....		915.16
Office supplies .....		540.00
Wages .....	715.25	
Accrued liabilities .....		715.25
Depreciation of furniture and fixtures .....	3,868.15	
Reserve for depreciation furniture and fixtures .....		3,868.15
Bad debts .....	129.15	
Reserve for bad debts .....		129.15

## (d) Aden Lair—General Ledger

	Dr.	Cr.	Bal.
<b>Bank</b>			
1946			
Mar. 1 Balance .....	33,126.84		
1947			
Feb. 28 Accounts receivable ..	326,142.55		
28 Sundries .....		344,107.49	Dr. 15,161.90
<b>Accounts Receivable</b>			
1946			
Mar. 1 Balance .....	25,640.17		
1947			
Feb. 28 Sales .....	327,045.60		
28 Reserve for bad debts .....		974.26	
28 Cash discounts given ..		219.04	
28 Cash .....		326,142.55	Dr. 19,349.92
<b>Reserve for Bad Debts</b>			
1946			
Mar. 1 Balance .....		1,425.61	
1947			
Feb. 28 Accounts receivable ....	974.26		
28 Bad debts .....		129.15	Cr. 580.50
<b>Merchandise Inventory</b>			
1946			
Mar. 1 Balance .....	24,620.00		
1947			
Feb. 28 Purchases .....		24,620.00	
28 Purchases .....	21,300.00		Dr. 21,300.00
<b>Prepaid Expense</b>			
1946			
Mar. 1 Balance .....	1,656.45		
1 Sundries .....		1,656.45	
1947			
Feb. 28 Sundries .....	1,455.16		Dr. 1,455.16

# STUDENT SECTION

## Furniture and Fixtures

1946				
Mar. 1	Balance .....	28,617.40		
1947				
Feb. 28	Bank .....	2,327.80	Dr.	30,945.20
	Reserve for Depreciation of Furniture and Fixtures			

1946				
Mar. 1	Balance .....	16,481.20		
1947				
Feb. 28	Depreciation on Furniture and Fixtures	3,868.15	Cr.	20,349.35

## Accounts Payable

1946				
Mar. 1	Balance .....	32,184.47		
1947				
Feb. 28	Merchandise purchases	280,169.17		
	28 Cash discounts received .....	3,720.16		
	28 Bank .....	277,061.90	Cr.	31,571.58

## Accrued Liabilities

1946				
Mar. 1	Balance .....	896.15		
	1 Wages .....	896.15		
	1 Wages .....	715.25	Cr.	715.25

## Capital—Aden Lair

1946				
Mar. 1	Balance .....	62,673.43		
1947				
Feb. 28	Bank .....	3,000.00	Cr.	59,673.43

## Merchandise Purchases

1946				
Mar. 1	Opening Inventory ....	24,620.00		
1947				
Feb. 28	Accounts payable .....	280,169.17		
	28 Closing inventory .....	21,300.00	Dr.	283,489.17

## Bad Debts

1947				
Feb. 28	Reserve for bad debts	129.15	Dr.	129.15
1947				

## Cash Discounts Given

Feb. 28	Accounts receivable ..	6,219.04	Dr.	6,219.04
	Wages			

1946				
Mar. 1	Accrued liabilities .....	896.15		
1947				
Feb. 28	Bank .....	34,280.00		
	28 Accrued liabilities .....	715.25	Dr.	34,099.10

## Office Supplies

1946				
Mar. 1	Prepaid expense .....	896.45		

## COST AND MANAGEMENT

1947

Feb.	28	Bank .....	4,216.22	
	28	Prepaid expense .....		540.00    Dr.    4,572.67

### Insurance

1946

Mar.	1	Prepaid expense .....	760.00	
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1947

Feb.	28	Bank .....	2,009.00	
	28	Prepaid expense .....		915.16    Dr.    1,853.84

### Interest and Bank Charges

1947

Feb.	28	Bank .....	333.18	Dr.    333.18
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### Selling Expenses

1947

Feb.	28	Bank .....	12,167.24	Dr.    12,167.24
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### Administration Expense

1947

Feb.	28	Bank .....	8,712.15	Dr.    8,712.15
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### Depreciation of Furniture and Fixtures

1947

Feb.	28	Reserve for depreciation of furniture and fixtures .....	3,868.15	Dr.    3,868.15
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### Merchandise Sales

1947

Feb.	28	Accounts receivable ..	327,045.60	Cr.    327,045.60
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### Cash Discounts Received

1947

Feb.	28	Accounts payable .....	3,720.16	Cr.    3,720.16
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(e)

### Aden Lair

### Trial Balance at February 28, 1947

Bank .....	15,161.90	
Accounts receivable .....	19,349.92	
Reserve for bad debts .....		580.50
Merchandise inventory .....	21,300.00	
Prepaid expense .....	1,455.16	
Furniture and fixtures .....	30,945.20	
Reserve for depreciation of furniture and fixtures .....		20,349.35
Accounts payable .....		31,571.58
Accrued liabilities .....		715.25
Capital—Aden Lair .....		59,673.43
Merchandise purchases .....	283,489.17	
Bad Debts .....	129.15	
Cash discounts given .....	6,219.04	
Wages .....	34,099.10	
Office supplies .....	4,572.67	
Insurance .....	1,853.84	

### STUDENT SECTION

Interest and bank charges .....	333.18	
Selling expenses .....	12,167.24	
Administration expenses .....	8,712.15	
Depreciation of furniture and fixtures .....	3,868.15	
Merchandise sales .....		327,045.60
Cash discounts received .....		3,720.16
	<u>\$443,655.87</u>	<u>\$443,655.87</u>

An analysis of the solutions presented to this problem reflects the following major discrepancies:

1. Failure to complete problem.
2. Mechanical errors in respect to:
  - (a) calculation of the amount of depreciation
  - (b) addition of accounts
  - (c) posting of incorrect amounts
  - (d) posting of debits as credits and credits as debits.
3. Failure to read question requirements carefully as applied to bad debts.
4. Unfamiliarity with treatment of cash discounts allowed and received.
5. Failure to exercise care in respect to form.

Although the number of students who failed to complete the problem was high, taken as a group it is doubtful that the general conclusion can be drawn that the time required for the paper as a whole was out of line with the time allotment. It is true no doubt that certain of the discrepancies mentioned above would not have been so noticeable since they indicated in certain instances a lack of care. The student should attempt to allocate his time allowance more accurately as between questions on the basis of the marks allocated to each question.

The problem stated that the **reserve** for bad debts was to stand at 3% of accounts receivable and not as several read the question that the provision for the year in respect to bad debts was to be 3% of the accounts receivable.

The errors arising in respect to cash discounts appear to have their root in the failure on the part of the student to realize that these entries are not cash entries even though they are invariably found in the cash books. The explanation as to why they are entered in the cash book lies in the close connection which they bear to the cash transaction out of which they arise. (You are referred to the solution as to the entries made for these items.)

Although the attention which is necessary to form in the elementary courses does become irksome to some the student should not overlook the significance of this aspect in the elementary courses.

